SWITZERLAND

TRADE SUMMARY

The U.S. trade deficit with Switzerland was $1.6 million in 2002, an increase of $1.7 billion from 2001. U.S. goods exports in 2002 were $7.8 billion, down 20.7 percent from the previous year. Corresponding U.S. imports from Switzerland were $9.4 billion, down 3.0 percent. Switzerland is currently the 18th largest export market for U.S. goods.

U.S. exports of private commercial services (i.e., excluding military and government) to Switzerland were $5.8 billion in 2001 (latest data available), and U.S. imports were $4.4 billion. Sales of services in Switzerland by majority U.S.-owned affiliates were $4.4 billion in 2000 (latest data available), while sales of services in the United States by majority Switzerland-owned firms were $31.2 billion.

The stock of U.S. foreign direct investment (FDI) in Switzerland in 2001 was $62.9 billion, up from $55.9 billion in 2000. U.S. FDI in Switzerland is concentrated mainly in the finance, wholesale and manufacturing sectors.

IMPORT POLICIES

The simple average tariff in Switzerland on imports of agricultural products is 34.3 percent, while the average for manufactured products is 2.3 percent. Due to high tariffs on certain agricultural products and preferential tariff-rates for other countries, Switzerland is a relatively difficult market for many U.S. agricultural products to enter. The U.S. share of the agricultural import market is about 6.25 percent.

Agriculture is strongly supported by the Swiss federal government. A recent study showed Switzerland has the highest producer-support level among the members of the Organization for Economic Cooperation and Development. Legislation effective January 1, 1999 began eliminating detailed market regulations and reducing direct government intervention in the setting of market prices. The broad goal of the new agricultural policy is to reduce direct government regulation of the market while still maintaining a full and active agricultural sector. Various import protection elements remain in place, but will need to be reduced to a large extent by 2007 as a consequence of Switzerland's bilateral accord with the European Union.

Federal government spending for food and agriculture nevertheless increased from $2.2 billion (SFr 3.7 billion) in 2000 to $2.3 billion (SFr 3.9 billion) in 2001. In August 2002, the federal government responded favorably to Swiss farmers' complaints of bad market conditions, increasing agricultural subsidies by $24.8 million (SFr 37 million) in the 2003 federal budget. Federal assistance should allow highly indebted milk producers to pay off debt worth $20.8 million (SFr 31 million) by mid-2005 – most of which resulted from unsold production. The Department of Economic Affairs said these measures were exceptional and were aimed at supporting Swiss jobs in the precarious dairy industry. Nonetheless, Swiss Dairy Food, Switzerland's second largest dairy firm, went bankrupt in late September 2002 and threatened the income of about 7,000 farmers. The Swiss government and several banks injected $107 million to keep production going and save two-thirds of the staff. The maximum level of direct subsidies to the dairy industry has been set at $9.4 billion (SFr 14 billion) over four years.

Agricultural tariff-rate quotas also present problems for U.S. exporters, since Swiss regulations often allocate quotas to importers that have incentives to purchase domestic products. This practice has increased protection for domestic producers and in some cases, such as potato products, has effectively blocked U.S. imports, even under tariff-rate quotas. U.S. agriculture exports have shown solid growth in recent years, though public resistance to bioengineered agricultural goods or the use of growth hormones remains strong. If Switzerland removed impediments to trade in the agriculture sector, U.S. industries estimate that U.S. exports would increase by $25 million.

The Swiss government announced during September 2002 that it would implement a new ordinance based on the Law on Foreign Economic Measures that would restrict sudden surges in steel imports. The move comes after the Swiss steel industry suffered severe steel restrictions from both U.S. and EU markets. The Secretariat for Economic Affairs has been tasked to draft a list of foreign goods that could be subject to import permits.

STANDARDS, TESTING, LABELING AND CERTIFICATION

Switzerland has taken a case-by-case approach to biotechnology products since voters rejected a moratorium on biotechnology research and products in 1998. Foods and additives that have been bioengineered need approval for consumer marketing through certification by the Federal Food Safety Office, and the manufacturer of a bioengineered food product must submit detailed information concerning the modifications. The Swiss authorities must review the product for toxicity, resistance to antibiotics, and allergenic characteristics. Bioengineered products that are substantially equivalent to a conventional organism may have an easier path to approval. Certificates of approval are valid for five years.

Switzerland has required labeling for foods containing bioengineered products since 1996. In 1999, the Government of Switzerland modified its regulations to require labeling only if the percentage of bioengineered ingredients reaches one percent. A notable exception to the labeling requirement is the use of substances in the production process extracted or refined from bioengineered substances, such as refined soy oil. According to Swiss officials, these ingredients do not require a biotechnology label because testing cannot show they are derived from bioengineered commodities.

The pharmaceutical industry has been influential in deflecting harmful regulation and maintaining a receptive market climate. The animal feed industry has succeeded in reaching consumers for its bioengineered products via a transparent approval system. However, the planting of bioengineered seed crops faces difficult environmental approval hurdles.

The biggest barriers for bioengineered food and agricultural products in Switzerland stem from policies by the major food retailers and Swiss farmers not to purchase such products. Swiss groups opposed to bioengineered products in the food chain have been very effective in convincing supermarket purchasing executives and Swiss farm groups to boycott bioengineered food, feed, and seed.

Since January 2000, imports of fresh meat and eggs produced in a manner not permitted in Switzerland must be clearly labeled as such. Methods not allowed in Switzerland include the use of hormones, antibiotics, and other antimicrobial substances in the raising of beef and pork, as well as the production of eggs from chickens kept in certain types of battery cages.

Switzerland continues to refuse to list any new U.S. plants as eligible to export beef, and despite repeated requests, has not produced science-based reasons for not doing so. Swiss inaction has blocked three plants that the United States has requested be listed since early 2002.

GOVERNMENT PROCUREMENT

Switzerland is a signatory of the WTO Government Procurement Agreement and complies fully with WTO rules concerning public procurement. On the cantonal and local levels, a law passed by Parliament in 1995 provides for nondiscriminatory access to public procurement. The United States and Switzerland agreed in 1996 on a text that expands the scope of public procurement access on a bilateral basis.

According to the July 2002 revised Ordinance on Public Procurement, all private or state-owned companies such as utilities, transportation, communications, defense and construction that submit tenders in government procurements have to make their bids public, provided the contract exceeds $148,800 (SFr 250,000). Total Swiss federal government procurement reached $2.5 billion in 2000, down by 20 percent from 1999. Foreign purchases totaled $446 million (SFr 750 million). Many public projects are carried out by cantonal and communal governments; their procurement is about two and one-half times the federal government amount.

In general, quality and technical criteria are as important as price in the evaluation of tenders. Cantons and communes usually prefer local suppliers because they can recover part of their outlays through income taxes. Foreign firms may be required to guarantee technical support and after-sale service if they have no local office or representation.

Notices of Swiss government tenders are published in the Swiss Official Gazette of Commerce (www.shab-online.admin.ch). Tender documents can be obtained free from the Gazette's website. There is no requirement to have a local agent to bid.

EXPORT SUBSIDIES

In recent decades, agriculture has lost its relative importance in the Swiss economy (though not in society or politics), and preservation in its current form has been due largely to governmental intervention and support. The Swiss system for protecting and aiding its farmers is now undergoing reform, both to reduce budgetary outlays and in response to pressure from consumers and Switzerland's trading partners. WTO agreements require Switzerland to eliminate non-tariff barriers, reduce export subsidies, make binding commitments on its schedule of agricultural tariffs, and decrease levels of domestic support payments. Consequently, the Swiss agricultural sector will gradually become more responsive to market forces and open to foreign goods. The Swiss government has ratified an agreement with the EU under which both sides will remove dairy product import quotas by 2008.

SERVICES BARRIERS

Foreign insurers wishing to do business in Switzerland are required to establish a subsidiary or a branch there and may offer only those types of insurance for which they are licensed in their home countries. Foreign lawyers are not forbidden to work in Switzerland, but there are practical and legal limits to their activities. For example, a foreign lawyer not licensed in Switzerland must follow carefully the complex requirements of several international conventions to obtain testimony or to serve process in civil matters in Switzerland.

The 1998 Telecommunications Act brought liberalization and privatization to the Swiss telecommunications sector, opening the market to investment and competition from foreign firms. Over 50 Swiss and foreign companies now offer fixed line services. Three different operators, Swisscom, Sunrise (TeleDanmark), and Orange (France Telecom), share the mobile telephone market, all of which also own third generation mobile telephony licenses (UMTS). Southern Bell Corporation's 40 percent stake in Sunrise's parent company TDC represents the only significant U.S. presence in the Swiss telecommunications market. The Swiss government has often been thwarted in its efforts to open the market to competition by Swisscom, the incumbent state monopoly. For example, Swisscom won a Federal Tribunal decision in 2001 against a Competition Commission decision to unbundle the local loop and provide leased lines at cost-oriented prices. In response, the government has begun the legal process of reforming the telecommunications law and the law's implementing ordinances in order to obtain the necessary legal authority for the regulator.

Switzerland has no limitations on the amount of non-Swiss or non-European origin programming that can be broadcast, but film distributors and cinema companies must maintain, through self-regulatory solutions, an appropriate diversity (not yet defined) in the products offered within a region. Beginning in 2004, the government may levy a nominal "development tax" on a region's movie theater tickets if the appropriate diversity is not present. The "development tax" receipts would be used to finance new theaters that would offer greater diversity in the films being shown within a region.

INVESTMENT BARRIERS

Switzerland welcomes foreign investment and accords national treatment. The federal government's approach is to create and maintain general conditions that are favorable both to Swiss and foreign investors. Swiss banking laws encourage the formation of abundant pools of capital from overseas investors. Some cantons have income tax incentive programs to encourage foreign investment.

The major laws governing foreign investment in Switzerland are the Swiss Code of Obligations, the Lex Friedrich, the Securities Law, and the Cartel Law. There is no screening of foreign investment (except land ownership and national security establishments), nor are there any sectoral or geographical preferences or restrictions. Land ownership by non-Swiss requires a federal permit, which is administered at the cantonal level. Investment areas considered national security establishments include hydroelectric and nuclear power, operation of oil pipelines, transportation of explosive materials, operation of airlines, and marine navigation.

ANTICOMPETITIVE PRACTICES

The Swiss economy has long been characterized by a high degree of cartelization, primarily among domestic-oriented firms and industries (i.e., usually not the large, internationally active multinationals). The Swiss constitution specifically allows cartels unless the government concludes that they are harmful to society or the economy. Swiss officials acknowledge that high prices for medications in Switzerland are the cost of helping support a strong pharmaceutical industry.

SWITZERLAND

While Switzerland enacted a stronger anti-cartel law in 1996, which gave increased power to the competition commission to prohibit/penalize cartels, the country's anti-cartel regime remains weak by U.S. and EU standards. The 1996 law, for example, allows firms engaged in anticompetitive behavior to avoid penalties for first violations, after first receiving a warning to cease the anticompetitive practice. Penalties and fines for subsequent violations are not particularly severe. Swiss competition regulators are seeking increased power to prohibit cartels and the ability to levy significant fines – including for first offenses. The government drafted legislation now under review by Parliament, which would allow penalties for first offenses and increase the maximum amount of the fine from 10 percent of a company's annual revenue to the total combined revenue of the firm for the past three years. Companies that cooperate with regulators may be also entitled to a reduced fine. Parallel imports may in some cases be allowed to circumvent excessive price fixing.

In general, the Competition Commission considers vertical agreements not exceeding 10 percent of market share as insignificant, whereas others will face a fine. The Competition Commission defines "significant vertical agreement" to occur when suppliers determine a minimum or fixed resale price, restrict the territory, the customers or the distribution to end-users. Restrictions on the sale of components or spare parts are also considered as such and generally are unlawful.

In the automobile sector, the Competition Commission implemented new rules during 2002, which greatly weakened special antitrust exemptions in the automobile industry. The new regulations forbid manufacturers to implement a higher "Swiss Price" outside Switzerland, a practice that prevented Swiss car buyers from shopping in neighboring countries for better deals.

ELECTRONIC COMMERCE

The proportion of Swiss citizens using computers and the Internet is high, and the government generally supports evolution of electronic commerce with a minimum of regulatory interference. Switzerland is following the lead of the EU with respect to Internet privacy issues. Swiss law stipulates that personal data may not pass to a foreign country if that country does not offer an adequate level of data protection.

In January 2001, Parliament began work on legislation that would recognize the validity of electronic signatures. The new legislation is expected to be approved during 2003 or 2004. Swiss authorities are promoting electronic government services with a goal of providing services more efficiently and making Switzerland more competitive as a business location.